Prop Firm Trading Rules:Complete Guide

Forex & Futures • Demo and Funded Accounts

What you'll learn: Drawdowns, Profit Targets, Trading Days, Consistency, Leverage, Holding Policies, News Rules, Lot Caps, EAs, Copy/Hedging, Prohibited Strategies, Payouts, Profit Splits, Time Limits, Evaluations, Violations, Scaling, Compliance

What Is a Proprietary (Prop) Trading Firm?

- Funds traders after passing evaluations; capital stays with firm
- Instruments: Forex, Futures, Indices, Metals, Crypto, Stocks (varies by firm)
- Two stages: Evaluation (demo) → Funded (live or simulated PnL with payouts)
- Monetization: Challenge fees + share of trader profits
- Why rules exist: Capital protection, consistent risk, fair execution, scalability

Drawdown Rules — The Foundation of Risk Management

- Daily Drawdown: Max loss allowed per day (typically 2–5%)
- Maximum/Static Drawdown: Fixed floor (4–10% of starting balance)
- Trailing Drawdown: Moves up with equity peaks, never down
- End-of-Day (EOD): Thresholds adjust only at session close
- Breach types: Intraday vs EOD-only; realized vs unrealized tracking

Daily Drawdown — Methods & Examples

Balance-based: Limit = Start Balance × Daily Loss %

- Example: $100,000 × 5% = $5,000 → Equity must stay ≥ $95,000

Equity-based (higher of balance/equity):

- Example: Start Bal $100k, Equity $101k → 5% of $101k = $5,050 → Min equity $95,950

EOD daily calc: Uses prior day's close only

- Example: Prior close $102,000, 5% → Close must be ≥ $96,900

Notes:

Reset daily; floating losses usually count; some firms offer buffers

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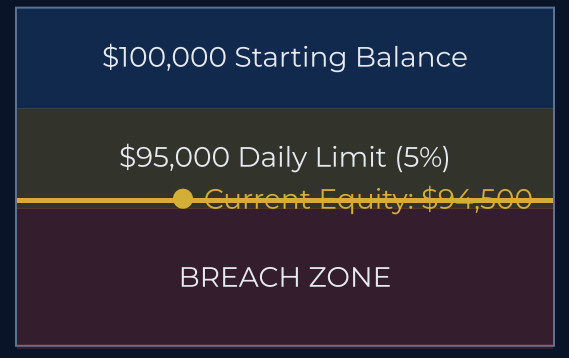
Daily drawdown breach scenario:

Three trades: -$3,000 realized loss
Open position: -$1,500 unrealized
Total: -$4,500 (Safe)

If unrealized loss grows to -$2,500
Total: -$5,500 (BREACH)



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Maximum/Static Drawdown — Fixed Floor

Definition: Absolute minimum equity threshold that never changes regardless of profits

- A fixed loss limit based on the initial account balance that never adjusts

Formula: Violation Level = Start Balance − (Start Balance × Drawdown %)

- Example: $100,000 with 8% static drawdown → Floor $92,000 (never moves)
- Typical range: 4–10% of starting balance across firms

Pros

- Simple and predictable—easy to understand
- Buffer grows as profits increase
- Better for swing traders who need wider buffers

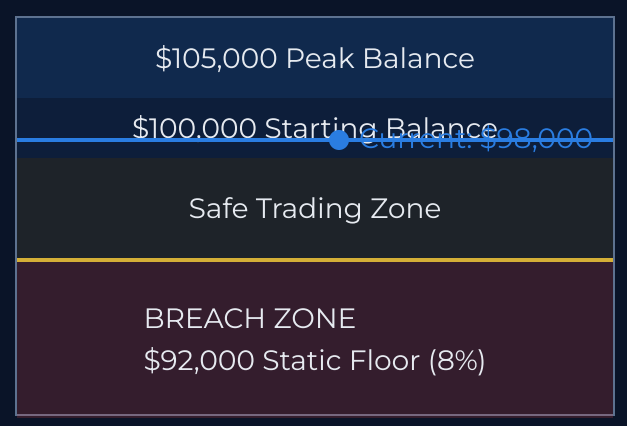
Cons

- Doesn't protect accumulated profits
- Can encourage riskier behavior after early wins
- No incentive to preserve profits once earned

Static Drawdown Scenario:

Day 1: Start $100,000 → Static floor $92,000
Day 15: Account grows to $105,000
Available buffer: $13,000

Day 30: Account drops to $98,000
Available buffer: Still $6,000 above floor
Static threshold NEVER moves up or down



Trailing Drawdown — Dynamic Protection

Formula: Trailing Level = Peak Equity − Allowed Loss

- Unlike static drawdown, trailing moves up with profits but never down with losses
- Acts as a "high-water mark" protection for accumulated profits

Intraday vs EOD Trailing:

- Intraday: Updates continuously; even brief profit spikes lock in new thresholds
- End-of-Day: Updates only at market close; intraday spikes don't count
- Realized vs Unrealized: Some firms trail only on closed trades; others include open positions

Scenario: $100,000 Account with $5,000 Trailing Drawdown

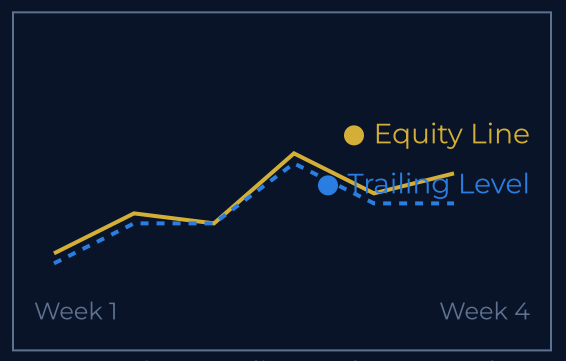
Peak: $103,000 **Level:** $98,000	**Peak:** $108,000 **Level:** $103,000	**Drop to:** $104,500 **Level:** Still $103,000

Pros & Cons:

✓ Protects accumulated profits ✓ Encourages disciplined trading
✗ Gets harder as you profit ✗ Psychologically demanding

Trailing drawdown in action:

Start: $100,000 with $5,000 trail
Week 1: Grow to $103,000 → Floor moves to $98,000
Week 2: Drop to $102,000 → Floor stays at $98,000
Week 3: Grow to $108,000 → Floor moves to $103,000
Week 4: Drop to $104,500 → $1,500 above threshold



End-of-Day (EOD) Drawdown — How It Works

- Updates only after market close; intraday swings don't move the limit
- Common setups: EOD trailing; EOD static-stop (stops trailing at a cap); daily liquidation value resets
- Benefits: Lower stress intraday, fewer false breaches, swing-friendly
- Risks: Temptation to overleverage intraday since only close matters
- Common in futures prop models; appearing in some forex evaluations

Profit Targets — One/Two/Three-Phase Models

Master Formula: Required Profit = Starting Balance × Target %

- Typical ranges: 6-15% overall depending on evaluation model

One-Phase Model: 8-10% single target

- Example: $50,000 account × 10% = $5,000 profit needed
- Simpler structure with higher success rates for beginners

Two-Phase Model: Phase 1 (8-10%) → Phase 2 (4-5%)

- Most common structure used by prop firms
- Phase 2 calculates from new starting balance

Three-Phase Model: 10% → 5% → 3% with increasing consistency

- Each phase has progressively stricter consistency requirements

Notes:

Must hit targets without violating drawdown/other rules; only closed trades count toward target; unrealized profits typically excluded

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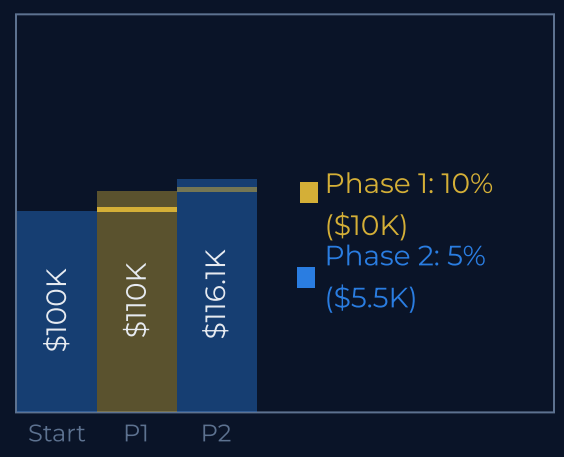
Two-Phase Example ($100K Challenge):

Phase 1: 10% target = $10,000
Week 1: +$3,500 (Balance: $103,500)
Week 2: +$2,200 (Balance: $105,700)
Week 3: -$1,100 (Balance: $104,600)
Week 4: +$4,800 (Balance: $109,400)
Week 5: +$1,200 (Balance: $110,600) ✅

Phase 2: 5% of $110,600 = $5,530 target
New target balance: $116,130



Minimum Trading Days — Consistency Over Time

- Ranges: 2–3 (express) | 3–5 (standard) | up to 10 (strict)
- A valid day: At least one opened & closed trade; some require min profit (e.g., $50+) or PnL %
- Advanced rules: Min trade size (e.g., ≥5% of initial balance) and PnL threshold (e.g., ±1% of trade value)
- Tips: Use small, planned trades to accumulate days; don't confuse calendar days with trading days

Consistency Rule — Preventing 'One Lucky Day'

Definition: Best day's profit must be ≤ X% of total profit since last payout

- Common thresholds: 15–50% (20–30% stricter; 40–45% lenient)

Formula: Min Total Profit = Best Day ÷ Consistency %

Example (50% Rule):

- Best day: $1,000
- Consistency rule: 50%
- Calculation: $1,000 ÷ 0.50 = $2,000 minimum total profit
- If total profit = $1,800 ❌ Cannot withdraw
- If total profit = $2,500 ✅ Can withdraw ($1,000 = 40% of $2,500)

Example (30% Rule):

- Best day: $1,500
- Consistency rule: 30%
- Calculation: $1,500 ÷ 0.30 = $5,000 minimum total
- Current profit: $4,200 ❌ Need $800 more
- Once $5,000 reached: $1,500 ÷ $5,000 = 30% ✅

Real Trading Scenario (40% Consistency):

$10,000 profit target with 40% consistency rule

Daily Profit Breakdown:

Monday: $4,000
Tuesday: $3,000
Wednesday: $2,000
Thursday: $500
Friday: $500
Total: $10,000

Consistency Check:

Best day: $4,000
Percentage: $4,000 ÷ $10,000 = 40%
Status: ✅ PASSES (exactly at 40% limit)

Teaching Tip:

A big winning day early raises your effective profit target. Track your best day and calculate required total: Best Day × (1 ÷ Consistency %) = Target Total

Leverage Restrictions — By Asset & Position Sizing

Typical max leverage:

- Forex majors: 1:30–1:100
- Futures: ~1:20–1:50 (contract inherent leverage)
- Stocks: 1:4 day / 1:2 overnight (US)
- Crypto: 1:2–1:5

Max vs effective leverage: Use less than allowed

Sizing by risk (preferred):

> Position Size = Risk $ ÷ (Stop pips × pip value)

Example:

- $50k acct, 1% risk ($500), 25 pips, $10/pip → 2 lots

> Don't let max leverage dictate size; risk % first

Position Holding — Weekend & Overnight

Weekend policies:

Recommended Approach

- Close by Friday to avoid gaps
- Scale down if partial holding allowed
- Document holding rationale

Avoid These

- Holding full position size over weekend
- Ignoring weekend holding policy of your firm
- Trading with inadequate weekend gap buffer

Policy Types

- **No holding:** Close by Friday to avoid gaps
- **Conditional:** Allowed with reduced size/risk controls
- **Allowed:** Some permit full holds
- **Overnight:** Commonly allowed; swaps/financing apply; some phase-specific bans
- **Risks:** Gaps, illiquidity, news shocks; plan buffers and stops

News Trading Restrictions — Timing & Events

Restriction Type	Description & Examples	Consequences
Blackout Windows	2–5 minutes before/after high-impact releases Example: NFP 8:30 ET → No open/close 8:28–8:32 ET (2-min rule)	Profit removal, soft breach warning
Red Events	NFP, CPI, GDP, FOMC/ECB rate decisions, major central bank statements ForexFactory "red folder" events typically restricted	Trade invalidation, potential hard breach
Firm Variations	Some firms allow during evaluation or via add-ons; funded often stricter E.g., FTMO allows during evaluation, restricts when funded	Varies by firm policy and account phase

Lot Size & Position Size Caps

Tiered Lot Caps by Account Size

- Forex pairs: 0.6 to 24 lots (scales with account size)
- XAU/USD (Gold): 0.10 to 4.0 lots
- Indices: 0.3 to 12 lots
- Cryptocurrencies: 5 to 200 lots

Position Size Formula

- Position Size = Account Risk $ ÷ (Stop Loss Pips × Pip Value)
- Example: $100K account, 0.5% risk ($500), 50 pip stop, $10/pip → 1 lot
- Always verify calculated size is under asset's lot cap

Violation Consequences

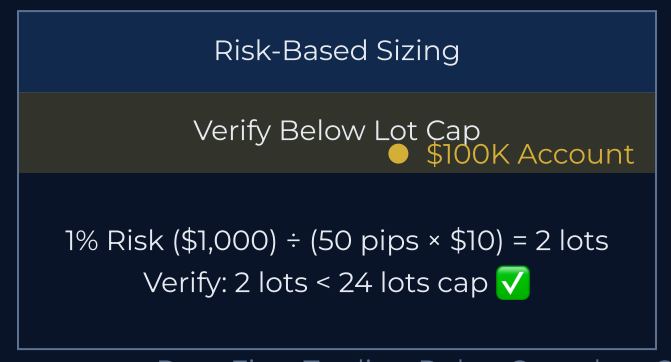
- Exceeding caps may void profits on that trade
- Can trigger funded account reset or termination
- May count as soft or hard breach depending on firm

Best Practice:

Always compute position size from risk percentage first, then verify it falls below the maximum lot cap for that instrument and account size.

Account Size Scaling Example:

$25K Account: Max 6 lots forex / 1 lot gold
$50K Account: Max 12 lots forex / 2 lots gold
$100K Account: Max 24 lots forex / 4 lots gold



Expert Advisors (EAs) & Automation

EA usage policies:

Recommended Approach

- Register EAs with firm before use
- Provide strategy details and configuration
- Log EA parameters/version for audit

Prohibited Strategies

- High-frequency trading (HFT) EAs
- Tick scalping algorithms
- Arbitrage and latency exploitation systems

EA Policy Types

- **Fully Allowed:** Some firms permit EA usage without restrictions
- **Registration Required:** Must submit EA details and config before use
- **Restricted Strategies:** Common bans on HFT, scalping, arbitrage
- **Completely Prohibited:** Some firms ban all automated trading systems
- **Compliance:** EAs must adhere to all other trading rules (drawdowns, news, lot caps)

Copy Trading Rules — Internal vs External

- Internal copying: Allowed between your own accounts; often with account limits (e.g., 3–20 accounts)
- Master–slave setups: One master account mirrors trades to linked slave accounts
- External copying: From other traders/sources typically prohibited
- Detection: Algorithms check timestamp, size, symbol, slippage correlations
- Penalties: Suspensions, bans, profit clawbacks for unauthorized copying

Hedging Policies — What's Allowed

- Internal hedging (same account): Often allowed (varies by firm)
- Cross-account hedging: Banned (opposing trades across your accounts)
- Group hedging: Coordinated multi-user hedges/arbitrage banned
- Rationale: Prevents risk-free/firm-costly schemes; ensures real market risk
- Penalties: Account termination, profit forfeiture

Prohibited Strategies — Avoid These

⚠ Prohibited Strategies

- HFT/Latency arbitrage; feed abuse
- Arbitrage (broker/latency/triangular)
- Tick scalping (ultra-short holds)
- Martingale/Doubling down strategies

⚠ Also Banned

- Grid trading systems
- Reverse trading across accounts
- DCA into losing positions
- Account rolling (replacing failed accounts)

ℹ Strategy Restrictions & Enforcement

- **Tick scalping limits:** Some firms require ≥50% of trades to exceed 1-2 minutes duration
- **HFT detection:** Algorithmic systems identify exploitative high-frequency patterns
- **Consequences:** Disqualification, account resets, permanent bans, profit removal
- **Legitimate alternatives:** Swing trading, position trading, manual day trading with proper hold times

Gambling & Reckless Behaviors

Trading vs. Gambling Distinction

Trading Responsibly

- Fixed position sizing (1-2% risk per trade)
- Data-driven decisions with clear setup criteria
- Consistent plan execution with documented edge

Prohibited Behaviors

- Overleveraging: Using most/all margin capacity
- One-sided bets without analysis or plan
- Hyperactive/impulsive trading out of boredom

Additional Prohibited Practices & Consequences

- All-in strategies: Placing large portions of balance on single trades
- Doubling down: Increasing position sizes after losses (Martingale)
- Punting: Small number of large, high-risk trades hoping for quick profits
- Consequences: Warnings → profit deductions → account restrictions → permanent termination

Payout & Withdrawal Rules

- Frequencies: After 8 trading days; 10 business days; 14 days; monthly; on-demand (6–12h) at some firms
- Requirements: Min winning days (e.g., 3–5), daily profit thresholds (e.g., $50+), consistency rule compliance
- Amounts: Min withdrawal $250–$1,000; maximum limits tiered by account size and payout number
- Safety net: Early payouts may require equity above drawdown plus buffer
- Progressive firms trending toward faster, more frequent payout options to attract traders

Profit Split Structures

Split Range	Characteristics	Split Models
50-60%	Lower end, common with older or more established firms More lenient rules, lower entry costs	Fixed Split: Same percentage regardless of performance Example: 50/50 firm/trader split
70-80%	Middle range, considered strong and fair Balance between trader earnings and firm profit	Tiered Splits: Percentage increases with performance milestones Example: 80/20 → 85/15 after hitting profit targets
80-90%	Higher end, offered by competitive firms Often comes with stricter rules or higher evaluation fees	Scaling-Based Splits: Increases as account size grows Example: 85% at $50K → 90% at $100K account
90-100%	Top-tier splits, premium offerings Significantly higher fees or extremely strict trading rules	Premium Models: Often require exceptional past performance Example: 95/5 with higher costs or revenue sharing

— Time Limits — Traditional vs Unlimited

Traditional Time Limits

- 10-30 days per evaluation phase
- Strict profit targets must be hit within timeframe
- Creates urgency and potential for overtrading

Unlimited Time Evaluations

- No deadline to hit profit targets
- Reduces pressure and trading stress
- Supports all trading styles from scalping to swing trading

Benefits of No Time Limit

- Better decision quality without deadline pressure
- Higher evaluation success rates overall
- Encourages quality trades over quantity
- **Still required:** Minimum trading days, rule compliance

Evaluation Models — Choose Your Path

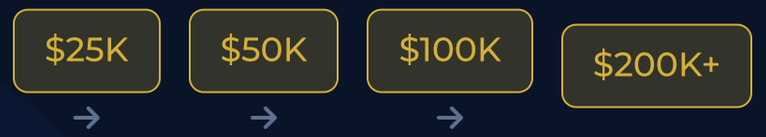
Model Type	Structure & Targets	Key Characteristics
One-Phase	Single evaluation with 8-10% profit target Simpler structure with one threshold to clear	Higher success rates; beginner-friendly; faster funding path
Two-Phase	Phase 1: 8-10% profit target Phase 2: 4-5% verification target Most common model in the industry	Balance of challenge and verification; proves consistency; standard rules
Multi-Phase	Three or more phases with decreasing targets Example: 10% → 5% → 3% with progressive consistency checks	Highest emphasis on consistency; thorough vetting; lower breach rates when funded
Instant Funding	No evaluation required — immediate capital access Higher fees but no waiting period or targets to meet first	Stricter live rules; higher costs; suitable for proven traders who want to skip evaluation

Violations & Reset Policies

- Hard breach: Immediate account termination; full reset or repurchase required
- Soft breach: Warning with profit deduction, but account remains active
- Progressive discipline: First/second violations receive warnings; third violation triggers breach
- Reset options: Cost-effective ($77–$477 depending on account size); restored within minutes
- Free retakes: Some firms offer free retries if minimum trading days were met but profit target wasn't reached
- Common violations: Drawdown breaches, news trading during blackout periods, prohibited strategies, gambling behavior

Scaling Plans — Grow Your Allocation

- Types of scaling plans:
  - Fixed % increases (e.g., 25% capital boost after profit milestones)
  - Performance-based (growth tied to demonstrated consistency)
  - Tiered milestones with increasing requirements
- Common scaling requirements:
  - Reaching profit targets (typically 10% account growth)
  - Avoiding drawdown limits for 30-60 days
  - Maintaining proper risk management and position sizing
- Typical growth pathway:



- Tips: Maintain consistent risk per trade as you scale; avoid consistency violations to unlock further scaling

Compliance & Monitoring — How Firms Enforce Rules

- Real-time tracking: Automated systems monitor drawdown, lot sizes, and trading patterns continuously
- Daily reconciliation: Post-session audits and EOD calculations to catch violations retroactively
- Algorithmic detection: Advanced algorithms identify suspicious trading patterns indicating copy trading, hedging, or arbitrage
- Manual reviews: Trading experts evaluate passed challenges for consistency rule compliance before payouts
- Breach dashboards: Traders receive detailed violation reports with exact timestamps, equity movements, and replay of breaches

Summary & Key Takeaways

- **Know your limits:** Daily, static, trailing, and EOD drawdown rules
- **Pass smart:** Meet profit targets while respecting minimum days and consistency requirements
- **Size by risk:** Calculate proper position sizes while respecting lot caps and leverage limits
- **Avoid traps:** News blackouts, prohibited strategies, gambling behaviors
- **Get paid:** Understand payout schedules, profit splits, and safety buffer requirements
- **Grow safely:** Follow scaling criteria and maintain compliance with all trading rules

> *"Success in prop trading requires not just profitable trading skills but also disciplined adherence to these structured risk management frameworks."*